

**Duke Power Company**  
***Annual Review of Base Rates for Fuel Costs***

***Docket No. 2004-3-E***

***Testimony of***  
***Jacqueline R. Cherry***  
***Audit Department***

***Public Service Commission of South Carolina***

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3                   **TESTIMONY OF JACQUELINE R. CHERRY**  
4                   **FOR**  
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6                   **THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA**  
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8                   **DOCKET NO. 2004-3-E**  
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10                  **IN RE: DUKE POWER COMPANY**  
11  
12

13 **Q. PLEASE STATE FOR THE RECORD, YOUR NAME, BUSINESS**  
14 **ADDRESS AND POSITION WITH THE PUBLIC SERVICE COMMISSION**  
15 **OF SOUTH CAROLINA.**

16 **A.** My name is Jacqueline R. Cherry. My business address is 101 Executive Center Drive,  
17 Columbia, South Carolina. I am employed by the Public Service Commission of South  
18 Carolina, Audit Department, as an auditor.

19 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR**  
20 **BUSINESS EXPERIENCE?**

21 **A.** I received a B. S. Degree in Business Administration, with a major in Accounting from  
22 Johnson C. Smith University in 1976. I was employed by this Commission in February  
23 1979, and have participated in cases involving gas, electric, telephone, water and  
24 wastewater utilities.

25 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

26 **A.** The purpose of my testimony is to summarize the results of the Audit Staff's  
27 examination of Duke Power Company's Fuel Adjustment Clause operation for the  
28 period **June 2003** through **May 2004**. The findings of the examination are contained in  
29 the Audit Department's section of the Commission Staff Report, prepared for this  
30 proceeding.  
31

**Q. WHAT WAS THE SCOPE OF THE EXAMINATION?**

**A.** The Audit Staff traced the fuel information, as filed in the Company's required monthly filings, to the Company's books and records. The audit covered the period **April 2003** through **March 2004**. The purpose of the examination was to determine if Duke Power Company had computed and applied the monthly Fuel Adjustment Clause in accordance with the approved clause. To accomplish this, Staff examined the components surrounding the operation of the clause.

**Q. WHAT WERE THE STEPS THAT THE STAFF EMPLOYED WITHIN THE SCOPE OF THE AUDIT?**

**A.** The examination consisted of the following:

1. An Analysis of Account # 151 – Fuel Stock
2. Sample of Receipts to the Fuel Stock Account – Account # 151
3. Verification of Charges to Nuclear Fuel Expense – Account # 518
4. An Analysis of Purchased Power and Interchange
5. Verification of KWH Sales
6. A Comparison of Coal Costs
7. An Analysis of Spot Coal Purchasing Procedures
8. Recomputation of Fuel Cost Adjustment Factor and Verification of Deferred Fuel Costs
9. Recomputation of True-up for the Over(Under) - Recovered Fuel Costs

**Q. WITH REGARD TO THE TRUE-UP OF OVER (UNDER)-RECOVERED FUEL COSTS, WOULD YOU PLEASE ELABORATE ON STAFF'S COMPUTATION?**

**A.** Staff analyzed the cumulative over-recovery of fuel costs that the Company had incurred for the period April 2003 through March 2004 of \$11,424,295. Staff added the projected (under)-recovery for April 2004 of (\$1,347,338) and the projected (under)-recovery for May 2004 of (\$3,748,985) to arrive at a cumulative over-recovery of \$6,327,972. The Company's cumulative over-recovery as of March 2004 and cumulative over-recovery as

1 of May 2004 differs from Staff's by \$173,705 and \$174,028, respectively (\$ 174,000 on a  
2 rounded basis). Staff and the Company reflected various differences in the monthly deferred  
3 fuel entries due mostly to rounding and in one month, due to a Purchased Power avoided cost  
4 adjustment. Staff's Purchased Power figures on a total system basis were the same for ten  
5 months out of the twelve-month review period when compared on a rounded basis.  
6 Differences in the Purchased Powers figures were sited in May and July 2003. Staff's report,  
7 reflects calculation adjustments made to Purchased Power Costs for the aforementioned  
8 months using the revised Fuel Statute, based on Staff's review of Purchased Power system  
9 operations reports and invoices. Staff's Exhibit G, S.C. Retail Comparison of Fuel Revenues  
10 and Expenses, which consists of four pages, provides details of Staff's cumulative over-  
11 recovery balance.

12 As stated in Duke Power Company's Adjustment for Fuel Costs, fuel costs will be included in  
13 base rates to the extent determined reasonable and proper by the Commission. Accordingly,  
14 the Commission should consider the over-recovery of \$6,327,972 along with the anticipated  
15 fuel costs for the period June 1, 2004 to May 31, 2005, for the purpose of determining the base  
16 cost of fuel in rates effective June 1, 2004. This over-recovery figure of \$6,327,972 was  
17 provided to the Commission's Utilities Department.

18 **Q. MRS. CHERRY, WOULD YOU PLEASE EXPLAIN THE ADJUSTMENTS ON**  
19 **STAFF AUDIT EXHIBIT G?**

20 **A. (a)** Staff's Purchased Power figures for April 2003 through March 2004 and the resultant  
21 over (under)-recovery monthly deferred fuel amounts for April 2003 through March 2004  
22 reflects Staff's compliance with the recently revised section of the S.C. Fuel Statute

(updated as of February 2004). This Statute addresses “fuel costs related to purchased power”. Section 7 (2)(b) of the revised Statute stated that the delivered cost of economy purchases, including transmission charges, could be included in Purchased Power Costs if those types of purchases were proven to be “less than the purchasing utility’s avoided variable costs for the generation of an equivalent quantity of electric power”. After Staff applied this revised Statute to the examined economic purchases in comparison to the applicable avoided costs, Staff’s adjustment increased the review period’s Purchased Power Costs, on a total system—native load basis, by \$1,783,947. As mentioned previously, according to the new Statute section, transmission charges could be included in the delivered cost of economy purchases. The Audit Staff and the Company could not readily identify the economy transmission charges for this review period. Therefore, Staff did not make an adjustment to specifically include these charges. Based on the new Statute section, after comparing the economy purchases to the Company’s applicable avoided variable costs, Staff’s avoided costs adjustment totaled (\$69,274). This figure reflects the usage of an avoided cost as a lesser price, at that point in time, over a purchase price. Staff’s avoided cost adjustment (on a native load basis) of (\$69,274) also reflects the difference (as adjusted for rounding) between the Company’s-- \$26,990,000 and the Staff’s -- \$26,919,662— Purchased Power Costs for the review period, on a total system basis. The effect of Purchased Power Costs , on a S.C. jurisdictional basis (28%), is \$ 7,557,000, per Company and \$7,538,000, per Staff. The net difference between the Company’s and the Staff’s Purchased Power Costs for the review period, on a S.C. jurisdictional basis, is \$19,000 (on a rounded basis).

1 (b) The Company and the Consumer Advocate agreed on a Stipulation in April 2004  
2 concerning the treatment of various Purchased Power Costs that was an issue in the previous  
3 Duke fuel hearings of Docket No. 2002-3-E and Docket No. 2003-3-E. The Stipulation was  
4 subsequently approved by the Public Service Commission of S.C. on May 4, 2004. The  
5 Stipulation between the Company and the Consumer Advocate stated that the Company  
6 would "forego recovery of \$500,000" in fuel costs as a settlement amount for the two  
7 aforementioned fuel dockets. It should be noted that the Company had already, at the time of  
8 the Stipulation, booked a reverse journal entry of \$566,033 (\$564,000 before the tax factor of  
9 1.0044) that could be considered in favor of the ratepayers. Therefore, Staff reflects an  
10 agreement with the Stipulation by reflecting a "Stipulation Adjustment" of \$500,000 as an  
11 over-recovery adjustment in the calculation of the cumulative deferred over-recovery balance  
12 as of March 2004.

13 **Q. MRS. CHERRY, WOULD YOU PLEASE DESCRIBE THE REMAINING STAFF**  
14 **EXHIBITS?**

15 **A.** Staff prepared exhibits from Duke Power Company's books and records reflecting fuel  
16 costs during the review period.

17 Specifically, these exhibits are as follows:

18 Exhibit A – Coal Cost Statistics

19 Exhibit B – Received Coal-Cost Per Ton Comparison

20 Exhibit C – Detail of Nuclear Cost

21 Exhibit D – Total Burned Cost (Fossil and Nuclear)

22 Exhibit E – Cost of Fuel

23 Exhibit F – Factor Computation

24 Exhibit G – S.C. Retail Comparison of Fuel Revenues and Expenses  
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1 **Q. MRS. CHERRY, WHAT WERE THE RESULTS OF THE AUDIT**  
2 **DEPARTMENT'S EXAMINATION?**

3 **A.** Based on the Audit Staff's examination of Duke Power Company's books and records,  
4 and the utilization of the fuel cost-recovery mechanism as directed by the Commission,  
5 the Audit Department is of the opinion that the Company has complied with the  
6 directives (per the Fuel Adjustment Clause) of the Commission.

7 **Q. MRS. CHERRY, DOES THIS CONCLUDE YOUR TESTIMONY?**

8 **A.** Yes, it does.